



June 25, 2013

**FINANCIAL SUMMARY OF THE PROPOSED AMENDED AND RESTATED LEASE
BETWEEN THE LOS ANGELES MEMORIAL COLISEUM COMMISSION (LAMCC) AND THE
UNIVERSITY OF SOUTHERN CALIFORNIA (USC) INCLUDING PROPOSED PARKING
TERMS**

1. Status Quo:

- Two existing ground leases between the Science Center and the Los Angeles Memorial Coliseum Commission (Commission), for the Los Angeles Memorial Coliseum (Coliseum), and for the Los Angeles Sports Arena (Arena) and require or authorize:
 - An annual rent of \$1 million increasing to \$1.3 million in 2016 and then increasing annually by the Consumer Price Index (CPI).
 - A percentage of revenue from naming rights received from both facilities to be passed on from the Commission to the Science Center. While no specific naming agreements have been reached, the state is still entitled to a percentage of any revenue generated should future agreements be signed.
- A sublease of the Coliseum to the USC requires or authorizes:
 - USC's rent to equal 8% of Home Football Game ticket sales
 - The Commission to pay 50 % of USC game day expenses.
 - The Commission to be responsible for all general overhead and administration of the Coliseum.
 - The Commission is required to fund approximately \$70 million in Coliseum improvements beginning in 2010.
 - The USC to terminate the sub lease for the Commission's failure to complete the above improvements.
- Parking revenues for USC football games, special event parking and daily parking at Exposition Park are deposited into the Exposition Park Improvement Fund. Revenues from the fund have been used to support the Park Manager, the Science Center, and the California African Museum.
- The Science Center has not received any rent for the 2012-2013 fiscal year, resulting in a loss of \$1 million. While the Commission has completed some minor improvements to the Coliseum, it has failed to make any of the required major improvements to the Coliseum. In addition, attendance and revenues from special event parking has been declining over the past four years.

2. The Pending Proposal:

- The Commission and USC, in May 2012, approved an "Amended and Restated USC-Coliseum Commission Lease"
- This agreement has been approved by the Commission, but USC's approval is conditioned on reaching agreements with the Science Center that address three key areas:
 - A new Non-Disturbance Agreement between USC and Science Center.
 - Agreements that will allow USC to continue leasing the Coliseum and Arena through the end of 2111.
 - An agreement that will provide USC with adequate parking within Exposition Park for USC-sponsored events.

3. The Exposition Park/Coliseum Term Sheet:

- If the three outstanding agreements (referenced above) are approved and executed, the state, through the Science Center, will benefit financially from both assured rental revenue and by being relieved from the potential of being liable for the maintenance and management of the Coliseum including the cost of required significant improvements to the Coliseum.
- The full transaction when executed will:
 - Require USC to assume all obligations for the management and maintenance of the Coliseum saving the Commission and state from that requirement. Avoided costs of millions.
 - Avoid the state from potentially being required to invest a minimum of \$70 million for capital improvements to the Coliseum and instead will require USC to assume those improvements.
 - Require USC to assume the Commission's rent obligations for both the Coliseum and the Sports Arena which will ensure continued payment of \$1 million in revenue and growing by CPI. While this is not new revenue, the USC is more financially able to ensure the payments are uninterrupted. This is estimated at over \$50 million through 2054. Require effective 2055, the Coliseum rent will be adjusted to a fair market rent reflecting an asset that has had \$100 million of capital improvements invested in it.
 - Authorize the USC to redevelop the Sports Arena according to a pre agreed process with Science Center approval. This will ensure the Commission and the state are able to avoid any potential costs that would be required to either demolish or redevelop the Arena.
 - Require USC to pay performance rent based on net revenue received from Coliseum operations after payment of operating costs and recovery of the cost of capital improvements. The Commission has agreed to deposit any performance rent received in the Exposition Park Fund. No estimates of how much this will be as it will be contingent on improved and increased usage of the Coliseum.
 - Authorize the USC to obtain parking permits for special events held at the Coliseum or Sports Arena.
 - This parking agreement has very specific guidelines that will govern how many events can be scheduled, how they will be managed and how the various entities at Expo Park will coordinate events at the Coliseum and Arena through the Park Manager. In addition it sets a rate for USC to pay

for parking permits that represents the daily charged rate plus \$2.00 maintenance and security fee that will rise with CPI.

- From our review and analysis of attendance and revenue received from special event parking, it is evident that this source of revenue has already been decreasing. It is hard to quantify the exact fiscal impact of the terms of the parking agreement related to special events, but assuming a status quo based on a four year average of past events (in terms of number of events, attendance and parking rates) it is possible that special event revenue to the Expo Park Fund (Fund) could decrease by anywhere from \$78,000 to \$203,000.
- However, given that in a separate land swap with the Commission, the state will gain control of 373 more spaces that are currently owned by the Commission, resulting in a potential for an additional \$114,000 of revenue.
 - This will offset any loss, resulting in a possible net gain of \$36,000 to a net loss of \$88,000. Given that all parking revenue to the Fund has been averaging at just over \$ 5 million it is only a 2% possible revenue loss. That potential loss would be completely mitigated assuming USC is able to attract two additional events over the four year average,
- Finally, USC is returning control of 150 VIP spaces to the state which could add potential for another \$45,000 in revenue during the year during USC football games.
- There will be no change as to how daily parking is managed. And USC football game day parking rates will be determined by a future parking study but rates charged will not be lower than current rates and will accrue to the state.
- As noted above, in a separate agreement with the Commission, the state will receive ownership and control of Commission-owned spaces in Parking Lots 1 and 3, providing opportunity for potential new parking revenue not previously available to the state.
- Parking revenue is expected to increase as more events are held at both the Coliseum and the Sports Arena after the investment of major capital improvements into the facilities

CONCLUSION

1. This amended lease transaction will provide assurance of continued rental revenue to the state as USC assumes financial liability on behalf of the Commission.
2. This amended transaction will ensure that the state is not forced to make tens of millions of dollars of improvements to an asset that does not provide direct benefit to the state.
3. Protects the interests of the Exposition Park entities by shifting focus for generating parking revenue to USC. USC will be incented to attract entertainment events that provide high attendance and therefore ability to generate consistent revenue for the Fund

REPORT TO THE CALIFORNIA SCIENCE CENTER BOARD OF DIRECTORS FROM ITS DESIGNATED NEGOTIATORS

SUMMARY

Whether the Board of Directors of the California Science Center (the Sixth District Agricultural Association/Exposition Park) should approve the "EXPOSITION PARK/COLISEUM TERM SHEET" and findings that the approval of the Term Sheet is categorically exempt from the California Environmental Quality Act ("CEQA") pursuant to section 15301 of the State CEQA Guidelines that will be discussed at the Board's June 25, 2013, meeting.

BACKGROUND

1. The Current Status Quo:

There are two existing ground leases between the Science Center and the Los Angeles Memorial Coliseum Commission (Commission), one is for the Los Angeles Memorial Coliseum (Coliseum) and the other is for the Los Angeles Sports Arena (Arena). The current ground leases took effect in 1956, and after extensions and amendments, now run through December 2054. The two ground leases were most recently amended, in part, in February 2008 to increase the rent from the former amount – \$80,000 per year, total, for both venues – to the current annual rental rate of \$1 million. In 2016 the annual rent increases to \$812,500 for the Coliseum and \$487,500 for the Arena (\$1,300,000.00, total). Starting in 2017, the rent will be adjusted every year per the applicable Consumer Price Index. The two ground leases give the Commission the right to sell naming rights to the Coliseum and the Sports Arena properties and require the Commission to pass through to the Science Center 1.875% of the naming rights revenue received from the Sports Arena and 3.125% of the naming rights revenues received from the Coliseum. Due to financial problems the Commission has not paid rent to the Science Center since July 2012.

For decades, the Commission has subleased the Coliseum (but not the Arena) to the University of Southern California (USC). In May 2008, the Commission and USC amended the Coliseum sublease. USC's rental payment to the Commission is equal to 8% of USC's Home Football Game ticket sales, plus USC pays 50% of the game day expenses which means that the Commission pays the other 50% of game day expenses. The Commission is responsible for all general overhead and administration and cannot charge any of those costs to USC's 50% share of game day expenses. In addition, the 2008 sublease requires the Commission to fund approximately \$70 million in numerous

Coliseum capital improvements with certain improvements to be installed in 2010. The rental payments received by the Commission from USC are a source of revenue that is available to the Commission for payment of its rent obligation to the state for the Coliseum and Arena ground leases. For a variety of reasons, the Commission was unable to fund the Coliseum improvements as agreed to in the 2008 sublease even after USC granted the Commission several extensions of time to complete the improvements. Under the 2008 sublease, USC's remedies for the Commission's failure to complete the improvements are to either terminate the lease or to loan the Commission the amounts necessary to complete the improvements with the repayment to USC to be on a straight-line amortization basis at 6% interest for the remaining initial term of the sublease which expires in 2033 unless USC elects to renew. If USC were to elect to loan the Commission the funds for the improvements, USC would offset the repayment of the loan with its rent payments. To the extent the rent payments are insufficient to fully pay off the loan by 2033 the Commission would also be obligated to make annual payments to the USC. The Commission estimated that the annual payments, after the rent offset would be in the range of \$ 4 million.

Also in 2008, the Science Center and USC entered into a "Non-Disturbance Agreement" with USC related to the 2008 sublease. Generally, under that agreement if the Commission/Science Center's Coliseum ground lease is terminated prior to the expiration or termination of the Commission/USC sublease, for any reason, then the Science Center, as USC's landlord, will assume all the obligations the Commission had agreed to in the Commission/USC sublease. This would mean the Science Center would be responsible for operating the Coliseum on game days and paying all costs of operations and overhead with the expectation of receiving 50% of game day costs from USC. Additionally, the Science Center would also assume the responsibility for the management and operation of the Coliseum including maintenance and repairs.

2. The Pending Commission/USC Proposal:

In May 2012, the Commission approved an "Amended and Restated USC-Coliseum Commission Lease." The Amended and Restated Lease leases the Coliseum to USC year round with USC assuming all obligations for the management and maintenance of the Coliseum. USC also assumed all obligations with respect to the required capital improvements to the Coliseum. Generally, this agreement gives USC more control over its use of the Coliseum. USC assumed the Commission's rent obligations to the Science Center for both the Coliseum and the Sports Arena (currently, \$1 million as discussed above). This agreement has been approved by the Commission, but USC's approval is

conditioned on reaching agreements with the Science Center that address three key areas:

- A new Non-Disturbance Agreement between USC and Science Center
- Agreements that will allow USC to continue leasing the Coliseum and Arena through the end of 2111
- An agreement that will provide USC with adequate parking within Exposition Park for USC-sponsored events

3. The Exposition Park/Coliseum Term Sheet:

As authorized by the Science Center Board of Directors, Directors Romero and Simril along with the Governor's office representative and State's legal counsel have been meeting with USC, representatives of our City and County partners in Exposition Park, various stakeholders including the California Science Center, California Science Center Foundation Board, California African American Museum, and Natural History museum and the public to discuss the proposed transactions with USC. Since March 2013, there have been four (4) Board of Directors meetings, more than two dozen meetings with the above reference stakeholders, and two (2) separate public meetings where the Board of Directors gathered public comment on the proposed deal. This process has resulted in the Exposition Park/Coliseum Term Sheet, which supplements and amends the draft Nondisturbance Agreement, Coliseum Lease Option and Sports Arena Lease Option previously negotiated between USC and the Science Center and released to the public on December 17, 2012. The Exposition Park/Coliseum Term Sheet is before the Board today for discussion and possible Board action.

Details of the negotiations are spelled out in the Exposition Park/Coliseum Term Sheet. Essentially, if the Term Sheet is approved by the Board and USC approves its new sublease with the Commission, the transactions will provide the following to the Science Center:

- USC will assume all of the Commission's financial obligations to the Science Center under the existing Commission/Science Center ground leases for the Coliseum and Arena.
 - The Commission has not met its rent obligations to the Science Center for nearly a year and it is unlikely the Commission will be able to meet its rent obligations going forward.
 - Through 2054, the Science Center will receive at least \$51 million in rental payments from USC.
 - USC is also obligated to pay performance rent to the Commission based on net revenue received from Coliseum operations after payment of operating costs and the cost of capital improvements.

The Commission has agreed to deposit any performance rent received in the Exposition Park Fund.

- Effective 2055, if USC exercises its option to extend the lease term, the Coliseum rent will be adjusted to a fair market rent reflecting an asset that has had \$100 million of capital improvements invested in it.
- Much needed capital upgrades to the Coliseum, a state and federal historical landmark at no expense to the State or the Science Center. Under the terms of the Lease Option for the Coliseum USC must invest at least \$100 million in improvements in the Coliseum in order to extend the term of its lease beyond 2054.
- The potential of redeveloping of the Arena into a viable public venue. Events held at the Sports Arena have decreased significantly since 2008. Any redevelopment of the Sports Arena other than for purposes analyzed in the EIR certified in 2011 will require Science Center Board approval. Any redevelopment would be funded privately and not at any cost to the State or the Science Center. If USC does not elect to redevelop the Sports Arena but determines that the Sports Arena is not financially viable, USC can cease operations of the Sports Arena, at which time the Science Center can negotiate with the Commission to take over responsibility for the Sports Arena. The Sports Arena is currently in need of significant improvements.
- The Exposition Park Manager will work with USC and all park entities to coordinate events and parking for events in a manner that results in the least disruption to the park entities and facilitates all park entities making full use of their assets.
- USC will be limited to holding no more than 25 events with attendance of more than 25,000 persons each year, including football game days, the 8 Commission Events allowed under the Amended and Restated Lease. The Commission Events include the Fourth of July celebration and other public benefit events. USC would be limited to allowing a NFL team to temporarily play at the Coliseum to no more than four consecutive years no more than twice during the term of the Lease and Option Terms
- USC will have the ability to rent the surface parking in Exposition Park for game days and up to 3 other events, exclusive of the spaces required to be reserved for the Natural History Museum pursuant to the lease with the County. For these events the USC can also rent the parking structure as well but a minimum of 600 spaces must be reserved for the Science Center and the California African American Museum during its normal hours of operations. If USC does not elect to purchase a special event

parking permit for the event, the Office of Exposition Park Management will operate the parking, set the rates and collect the revenues.

- For all other events held while the Museums are in operations, USC will be limited to using the surface parking lots (exclusive of the spaces reserved for the Natural History Museum pursuant to the lease with the County). USC will have the option of using the Science Center Structure for other events if the event takes place outside of normal business hours of the Museums and does not interfere with parking for other events being held by the Science Center or CAAM. If USC does not elect to purchase a special event parking permit for an event, Exposition Park will operate the parking, set the parking rates and collect the revenues.
- For football games, USC will pay no less than the rates it currently pays, \$25 per space. For all other events USC will pay the daily parking rate as determined by the Science Center Board from time to time plus a \$2 per space maintenance surcharge, which surcharge will be adjusted every five years by the increase in the CPI. Parking revenue is expected to increase as more events are held at both the Coliseum and the Sports Arena after the investment of capital into the facilities.
- USC will accommodate buses for museum patrons on the surface lots until 3 hours before a major event.

4. Parking Revenue:

The Department of Finance has reviewed the parking revenues received by the Exposition Park Improvement Fund for event parking for the past four years as provided by Classic Parking, the current contract parking operator. Since 2009 the parking revenues from events exclusive of USC football games have declined substantially from \$1.2 million in 2009, to \$788, 000 in 2012, exclusive of USC Football games. The decline can be attributed to various factors including the downturn in the economy, increased competition from competing venues, and most notably the age and condition of the Sports Arena which has increased the Commission's difficulties in booking events. Based on the available records, the average parking rate received for the parking is \$13.26 per space and the weighted average is \$15.26. The Term Sheet would require, based on the current daily parking rate, that USC pay \$12.00 per space if USC elected to purchase a parking permit for the event. If USC does not elect to purchase a parking permit, the Office of Exposition Park Management would set the rates for the event and collect the revenues. Based on the DOF's analysis, if USC were to purchase a special event parking permit at the rate set in the Term Sheet (\$12.00) for the same number of spaces that on average have been sold

over the last four years, the Exposition Park Improvement Fund could see a drop in revenue in the range of \$80,000 to \$200,000 annually. However, the potential revenue reduction is offset by the net new revenue the Parking Fund will receive based upon the land transfer from the Coliseum Commission for spaces in Lots 1 and 3 as well as North and South Coliseum Drive which will in fact see a revenue gain based upon the average of approximately \$36,400 and a potential loss based upon the weighted average of approximately \$88,300. Given the improvements that USC will be making to both the Coliseum and the Sports Arena there is a reasonable expectation that the potential for increased events at both venues is likely. Therefore, if you consider that USC were able to book three additional events selling 3600 spaces (average number of spaces for larger events over the last four (4) years) each at the \$12.00 rate there would be no revenue loss and in fact revenue gain at both the average and weighted average analysis. Additionally, the Term Sheet calls for USC to pay to the Exposition Park Fund increased parking rates for certain VIP parking spaces for USC football games. Revenues from these spaces have previously been paid to the Commission.

RECOMMENDATION

1. That the Board make a finding that (1) the principles contained in the Exposition Park/Coliseum Term Sheet are consistent with the Exposition Park Master Plan; and (2) the principles contained in the Exposition Park/Coliseum Term Sheet, particularly those contained regarding "Parking" (Exposition Park/Coliseum Term Sheet, Section 3) preserve and protect the interests of the California Science Center and the California African-American Museum.

2. That the Board approve a motion to:

- a. Approve the Exposition Park/Coliseum Term Sheet.
- b. Find that approval of the Exposition Park/Coliseum Term Sheet is categorically exempt from the provisions of the California Environmental Quality Act ("CEQA) pursuant to section 15301 of the State CEQA Guidelines.

Respectfully submitted,

Irene Romero
Renata Simril

Board Members, California Science Center Board of Directors